



EFFECT OF ECONOMIC DEPRESSION ON GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES: A STUDY OF AWKA SOUTH LOCAL GOVERNMENT AREA, ANAMBRA STATE, NIGERIA

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Abstract:

This research work studied the effect of economic depression on the growth of small and medium scale enterprises (SMEs) in Awka South Local Government Area, Anambra State and their contribution to economic growth. This research focuses on the extent to which economic hardship affects the operations and activities of SMEs in Awka South. The study was conducted in Awka South Local Government Area, Anambra State. Data for the study were collected from a representative sample of one hundred (100) SMEs entrepreneurs in the area. A systematic sampling technique would be used to select the respondents. The result of the analyses showed that economic depression impairs the growth of SMEs in Awka South Local Government Area, Anambra State. There should be adequate provision of infrastructures, government should give special consideration to SMEs by patronizing SMEs output, government should attract international financial institutions towards the growth and development of small scale industries in Awka South and Nigeria at large etc.

JEL: L20; L23; L53

Keywords: economic depression, SMEs, entrepreneurs, economic growth

1. Introduction

The year 2008 was indeed an historic year. The financial disruptions triggered by the US subprime mortgage market precipitated a global financial crisis, which simultaneously

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affected all the major world economies including the United States of America, the European Union, Japan and China (Boorman, 2009). By end of 2008 all these economies were in a recession. The financial crisis can be traced to a decade of low interest rates in the United States of America during the 1990s, which in turn spurred liberal lending practices by commercial banks to clients that had no ability to repay loans, thereby compromising the quality of loans held by financial institutions. The widespread nature of lending to the sub-prime market, in turn, promoted a boom in the property market.

However, as the US started experiencing an economic slowdown and rising interest rates around that time, sub-prime mortgage defaults began soaring, and the securities built around these debts, including property prices began losing value with contagion effect. The resultant strain from the financial crisis led to two critical consequences internationally: (1) Credit Crunch in the USA and, (2) a liquidity crisis arising from the uncertainty over which institutions held problem debt and its actual value, so that banks have been prompted to restrict lending to one another, creating a major liquidity crisis in the global financial market (Ajakaiye & Fakiyesi, 2009).

Although, most African markets were remarkably resilient to the Global Financial Crisis, primarily due to the fact that their financial systems do not hold any of the “toxic” securities and debts that have precipitated and spread the crisis in the international financial system (Kasekende, et al., 2009). But same cannot be said of Nigeria, whose financial markets experienced enormous strains due to both global and local market liquidity issues and high dependence on oil. The economic meltdown did not only affect the financial sector but also the real sector which is largely constituted by small scale industries in Awka South and Nigeria at large.

For both developing and developed countries, small scale firms play important role in the process of industrialisation and economic growth. Apart from increasing per capita income and output, small scale enterprises create employment opportunities (Ayozie and Latinwo, 2010; Ogujiuba, et. al., 2004), enhance regional economic balance through industrial dispersal (Ogujiuba, et. al., 2004) and generally promote effective resource utilization considered critical to engineering economic development and growth. More generally the development of SMEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation (Ayozie & Latinwo, 2010; Udechukwu, 2003).

The ability of small firms to grow depends largely on the economic condition of the country where they operate. The smallest firms present unique challenges for developing countries, especially those experiencing economic depression. They have high birth and mortality rates, and their owners often have few assets, which can be used for collateral. The desired loans are generally of small size. Given administrative costs, traditional collateral-based lending may not be profitable.

1.1 Statement of the Problem

The small scale industry is acknowledged to have huge potential for employment generation and wealth creation in any economy. Yet in Nigeria, the sector has stagnated

and remains relatively small in terms of its contribution to GDP or to gainful employment. Activity mix in the sector is also quite limited – dominated by import dependent processes and factors. Although there is no reliable data, imprecise indicators show that capacity utilization in the sector has improved perceptibly in the period since 1999, but the sector is still faced with a number of constraints (such as low patronage, low technical know-how, limited market, poor infrastructure, lack of incentives etc.) with lack of credit availability as the principal constraint. It is in this light that the main thrust of this research work focuses on the effect of structural rigidity which often characterizes economic depression on the growth of small industries in Awka South Local Government Area, Anambra State.

1.2 Research Questions

The research questions, which guide this study, are as follows:

- 1) Is there any relationship between economic depression and the growth of SMEs in Awka South Local Government Area, Anambra State?
- 2) How does economic depression hinder the growth of SMEs in Awka South Local Government Area, Anambra State?

1.3 Objectives of the Study

The main purpose of this study is to examine the effect of economic depression on the growth of small and medium scale enterprises in Awka South, taking into consideration various conditions such as economic, political, social, psychological etc. under which SMEs operate. In view of the above, the specific objectives of the study are as follows:

- 1) To examine the relationship between economic depression and the growth of SMEs in Awka South Local Government Area, Anambra State.
- 2) To examine the factors that hinders the growth of SMEs during economic depression in Awka South Local Government Area, Anambra State.

1.4 Statement of Hypotheses

- 1) That there is no relationship between economic depression and the growth of SMEs in Awka South Local Government Area, Anambra State.
- 2) Economic depression does not hinder the growth of SMEs in Awka South Local Government Area, Anambra State.

2. Literature Review

2.1 Theoretical Review

2.1.1 Turbulent Business Environment

In turbulent business environments, organizations need to react quickly and creatively to make the most of new opportunities and business models (Goldman, et al., 1995). These new imperatives of business practice require organizations to become more responsive and flexible to handle change. Of key importance to organisations in

responding successfully to change is the concept of emergence. Montuori (2003) explains how our lives today are riddled with complexity and that the unforeseen and the ambiguous, indeed disorder, and individual subjectivity are the norm. The sciences of complexity show us the role of chance, uncertainty and contingency in the world of frequent and continuous change. Stacey, et al., (2000) and Mitleton-Kelly (2003) illustrate the growing interest in understanding organizations and new management practices in terms of theories of complexity and seek to provide new ways of thinking and reasoning in relation to emergent behaviour.

Toffler (1980) and Ansoff (1979) have noted that business environments are becoming progressively more turbulent, driven by events that are increasingly rapid, more difficult to understand, originating from a wider array of sources and becoming more unpredictable. Thus, in Mintzberg's terms, they see business environments becoming increasingly dynamic, complex, diverse and, perhaps, hostile. Toffler argues that industries are currently in a stage of transition from the industrial era to the information or knowledge era. In this transition they are being re-organised and redefined. Information Technology is seen as transforming business capabilities by reducing traditional capital and geographic barriers to competition; by permitting micro-segmentation of markets and efficient, demand-responsive, small batch or custom manufacturing; by enabling an accelerated pace of innovation; and by increasing the importance of knowledge as a core competence.

2.1.2 Managerial Theory

The *managerial theory* of the firm sheds some light on the neoclassical profit maximization black box, which portrays the firm as operating in space less and timeless environment. This theory focuses on the structure of the firm (owners versus managers) as an important determinant of the firm's growth. According to the managerial theory of the firm, the firm is owned by the shareholders while it is controlled by the hired managers. Due to the separation of control from ownership, a divergence of interests between shareholders and managers is likely to occur. While the shareholders may be concerned with the profit, the managers are likely to be preoccupied with sales or revenue maximization which influences their salaries. Therefore, firm's growth may be more important for managers than profit (Berle and Means, 1932).

2.1.3 Principal-Agent Theory

The *principal-agent theory* although is similar to the managerial theory on its emphasis on the structure of the firm (employer and employees) but its focus is on a different aspect of the firm's structure. It focuses on the contracts (between employers and employees) and how they can encompass a conflict of interests that might hinder the efficiency of the firm. According to the theory there are two main actors in the firm, namely, the owner who is the principal and the manager who is the agent. The theory focuses on the contractual relationship between ownership (which is exercised by the owner or shareholders) and control (which is exercised by the hired manager), and as such it is

considered a new version of the managerial theory discussed above. The principal-agent theory concern is the information asymmetry between the agent and the principal and how to design a contract that can advance the interests of the principal despite the fact that the agent's interests may be different from that of the principal. This divergence of interest leads to the problem of the moral hazard. That is, once there is a contract in place between the principal and the agent, the agent may behave differently from what he would have done if there had been no contract. In other words, it is difficult for the principal to tell whether the agent is behaving in his own self-interest in way that does not serve the best interests of the principal. Therefore, the major concern of this theory is how to cope with the problems of asymmetric information, incentives and measurement of performance (Milgrom & Roberts, 1992).

All the above theories of the firm have made attempts to identify the important factors that determine market structures, conduct of the firms and eventually their performance.

2.2 Empirical Literature

Even if there are controversies on definitions, what is not contestable is the contribution of Small and Medium Scale Enterprises (SMEs) to Economic Growth and Development especially in developing countries. According to Udechukwu, (2003), the development of SMEs is an essential element in the growth strategy of most economies and holds particular significance for Nigeria. He maintained that SMEs not only contribute significantly to improved living standards, they also bring about substantial local capital formation and achieve high levels of productivity and capability. He noted that a major gap in Nigeria's industrial development process in the past years has been the absence of a strong and virile small and medium enterprises sub-sector. He argued further that the little progress recorded from the courageous efforts of the first generation of indigenous industrialists were almost completely wiped out by the massive dislocations and traumatic devaluation which took place under the Structural Adjustment Programme (SAP). Kayanula and Quartey (2000) noted that Small and Medium Scale Enterprises (SMEs) have been recognised as the engines through which the growth objectives of developing countries can be achieved because they are potential sources of employment and income.

Anyanwu, (2003), acknowledged SMEs as the bedrock of the industrial development of any country. He said that apart from the numerous goods produced by SMEs, they provide veritable means of large-scale employment, as they are usually labour intensive. According to him, they also provide training grounds, for entrepreneurs even as they generally rely more on the use of local materials. These contributions thus explain why Governments and International Agencies mobilize efforts towards the realization of sustainable industrial growth and the creation of mass employment through the rapid growth and development of the small-scale enterprises. Similarly, Ogunjiuba, et al. (2004) argued that small and medium scale firms play important roles in the process of industrialization and economic growth in both developing and

developed countries. They further pointed out that SMEs create employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization considered critical to engineering economic development and growth.

Olorunshola (2003) opined that the concept of SMEs is relative and dynamic. According to him, the definitions change over a period of time and depend, to a large extent, on a country's level of development. He noted that the SMEs are characterised by limited access to financial capital, simple management structure resulting from the fusion of ownership and management by one person or very few individuals. SMEs tend to strongly revolve around the owner-managers, rather than as a separate corporate entity. He argued that there is often greater subjectivity in decision making, and prevalence of largely informal employer - employee relationships. As a result of their greater use of local resources, he said, they are widely dispersed throughout the country. They are also closely attached to the products that launched them; many are labour-intensive although modern SMEs are increasingly employing reasonably high technology, he concluded.

Ikechukwu, Onyi and Akamobi (2018) aimed at providing empirical evidence on the effects of Financial Institutions on the growth of SMEs in Enugu state, Nigeria. The study used a survey research design method with a population of 288 respondents. The questionnaire was designed to gather relevant information on the variables associated with financial institutions and Small and Medium Enterprises (SMEs), Data was collected through primary data and evaluated using simple Regression and Pearson Correlation Analysis. The results show a significant relationship between microfinance banks Loan size and performance of micro-scale enterprise, no significant relationship between Commercial banks interest rate Growth and Development of SMEs in Enugu State and a significant relationship between development banks aids, grants and subventions to medium-scale enterprises and economic growth and development in Enugu state, Nigeria. Similarly, Tafame (2018) investigates the influence of economic recession on Small and Medium Scale Enterprises (SMEs) in Nigeria. The study employed primary data by distributing one-hundred (100) questionnaires to owners/managers, Senior Staff and Junior Staff of ten (10) selected SMEs in Benin City, Edo State of Nigeria. The regression technique of the ordinary least square was employed to analyze the data collected. The results revealed that sales revenue of SMEs and economic recession were negative and statistically insignificant, profitability of SMEs and economic recession was positive and statistically significant while government policies and economic recession were positive and statistically significant. Again, Ezeanyej, Imoagwu and Ifeako (2019) focuses on the impact of recession on economic growth in Nigeria from 1980 to 2017. The Augmented Dickey Fuller (ADF) unit root test, Johansen cointegration test and Error Correction Mechanism (ECM) were adopted and analysed. The research findings revealed negative impact of recession on economic growth in Nigeria and on the lives of Nigerians. It also brings out the deeper structural problems inherent in the Nigerian economy and proffer solutions to pull Nigeria out of the recession. Similarly, Nweze and Nnadi (2020)interrogate the link between entrepreneurship as a mechanism for economic

growth and depressed economy in South East Nigeria. In all 554 structured questionnaires were administered to staff of different ranks in the selected small scale industries. Two hypotheses were formulated and tested using Godden Statistical tool for analysis and Taro Yamane. The result of the study revealed that there is a significant positive relationship between entrepreneurship and economic growth of depressed economy, the study also found that government policies have a significant positive effect on entrepreneurship development in South East Nigeria.

3. Research Methodology

Qualitative research design was adopted in this study. Data requirements for the study were sourced through primary data. Such source includes survey and questionnaire. A well structured questionnaire was used to elicit information from the chosen respondents. The questionnaire was structured into two (2) sections; section one captured the bio-graphic data of the respondents while section two seeks the opinion of the respondents on the subject matter.

The population of this study comprises some of the small scale operators in Awka South Local Government Area, Anambra State. There is no statistics on the number of small scale operators in Awka South Local Government Area, Anambra State as majority of them are not registered. A total of one hundred (100) respondents were selected for the purpose of the study. One hundred respondents were selected for the survey in order to gather diversified opinions on the subject matter and to allow for precision in the data collation. The responses of the respondents would be enough to make generalisation based on the findings. Besides, the number of respondents was limited to this number because of the difficulty of getting respondents for this kind of research.

The simple random sampling technique was used to select five (5) streets where commercial activities take place mostly in Awka South Local Government Area, Anambra State. Systematic sampling was used by choosing the respondents from every other store. The survey was conducted on a Saturday because more small scale operators are always open on this day. However, the responses to the questions on the questionnaire shall be analysed using frequency tables, charts, and simple percentage method. The research hypotheses stated earlier shall be tested using the chi-square statistical method and goodness of fit. The chi-square method will be calculated thus:

$$X^2 = \frac{(O - E)^2}{E}$$

Where:

X^2 = Chi-square

O = Observed frequencies

E = Expected frequencies

Appropriate interpretation and discussion shall be made thereon according to the results of the hypotheses testing, stating whether the hypothesis would be accepted or rejected.

4. Presentation of Result and Data Analysis

4.1 Presentation and Analysis of Data According to Research Questions

Table 4.1 shows the responses of respondents to questions 1: Is there any relationship between economic depression and the growth of SMEs in Awka South Local Government Area, Anambra State?

Table 4.1: The responses of respondents to question 1

Responses	Frequency	Percentage(%)
Yes	88	88
No	12	12
Don't Know	0	0
Total	100	100

Source: Field Survey, 2021.

As regard the greatest constraint to the development of SMEs in Awka South Local Government Area, Anambra State, majority of the respondents (88%) says yes that there is relationship between economic depression and the growth of SMEs in Awka South. Only 12% of the respondents indicated no that there is relationship between economic depression and the growth of SMEs in Awka South.

Table 4.2 shows the responses of respondents to question 2: How does economic depression hinder the growth of SMEs in Awka South Local Government Area, Anambra State?

Table 4.2: Responses of respondents to question 2

Responses	Frequency	Percentage(%)
Yes	55	55
No	45	45
Don't Know	0	0
Total	100	100

Source: Field Survey, 2021.

From the table presented above 55% of the respondents indicated that the economic depression hinders the growth of SMEs in Awka South is yes but 45% of the respondents opined otherwise. It is obvious from the responses that the economic depression hinders the growth of SMEs in Awka South.

4.2 Test of Hypotheses

- 1) That there is no relationship between economic depression and the growth of SMEs in Awka South Local Government Area, Anambra State.

- 2) Economic depression does not hinder the growth of SMEs in Awka South Local Government Area, Anambra State.

These hypotheses can be related to questions 1 and 2 of the research questions.

Table 4.4: Test of hypotheses

No.	Questions	No. of Respondents	Yes	No	Don't Know
1.	Is there any relationship between economic depression and the growth of SMEs in Awka South Local Government Area, Anambra State?	100	88	12	0
2.	How does economic depression hinder the growth of SMEs in Awka South Local Government Area, Anambra State?	100	45	55	0

Source: Field Survey 2021.

Using the chi-square (X^2) test, we can now test the hypothesis

Table 4.5: Chi-square (X^2) test for hypothesis 1 and 2

Questions	Q1	Q2	Total
Yes	88(e11)	45(e12)	133
No	12(e21)	55(e22)	67
Don't Know	0(e31)	0(e32)	0
TOTAL	100	100	200

$$H_0 : X^2 = 0$$

$$H_a : X^2 \neq 0$$

Level of significance (X) = 1% = 0.01

$$\begin{aligned} \text{Degree of freedom (d.f.)} &= (r-1)(c-1) = (3-1)(2-1) \\ &= 2 \times 1 = 2 \end{aligned}$$

From the table 0.01 d.f. 2 = 9.21

$$e_{11} = \frac{133 \times 100}{200} = \frac{13300}{200} = 66.5$$

$$e_{12} = \frac{133 \times 100}{200} = \frac{13300}{200} = 66.5$$

$$e_{21} = \frac{67 \times 100}{200} = \frac{6700}{200} = 33.5$$

$$e22 = \frac{67 \times 100}{200} = \frac{6700}{200} = 33.5$$

$$e31 = \frac{0 \times 100}{200} = \frac{0}{200} = 0$$

$$e32 = \frac{0 \times 100}{200} = \frac{0}{200} = 0$$

Table 4.6: Tabulated Chi-square (X^2) test

O _i	E _i	O _i - E _i	(O _i - E _i) ²	(O _i - E _i) ² /E _i
88	66.5	21.5	462.25	6.9511
45	66.5	-21.5	462.25	6.9511
12	33.5	-21.5	462.25	13.7985
55	33.5	21.5	462.25	13.7985
0	0	0	0	0
0	0	0	0	0
				41.4992

$$X^2_c = \frac{(O_i - E_i)^2}{E_i} = 41.4992$$

$$X^2_t = 0.01 \text{ d.f. } 2 = 9.21$$

$X^2_c > X^2_t$ (41.4992 > 9.21); so reject H_0

4.3 Discussion of the Findings

The result obtained from the chi-square (X^2) test shows that chi-square calculated is greater than chi-square tabulated; therefore, we shall reject the null hypothesis and accept the alternative hypothesis. This implies that there is relationship between economic depression and the growth of SMEs in Awka South Local Government Area, Anambra State.

Economic hardship affects every aspect of the economy and all enterprises small, medium and large feel the effect. Thus, policy makers are not expected to formulate policies that would plunge the country into economic recession rather, they are to zealously steer the economy on the path of boom so that business activities can flourish in the Awka South.

Graphically, the region of rejection is shown below.

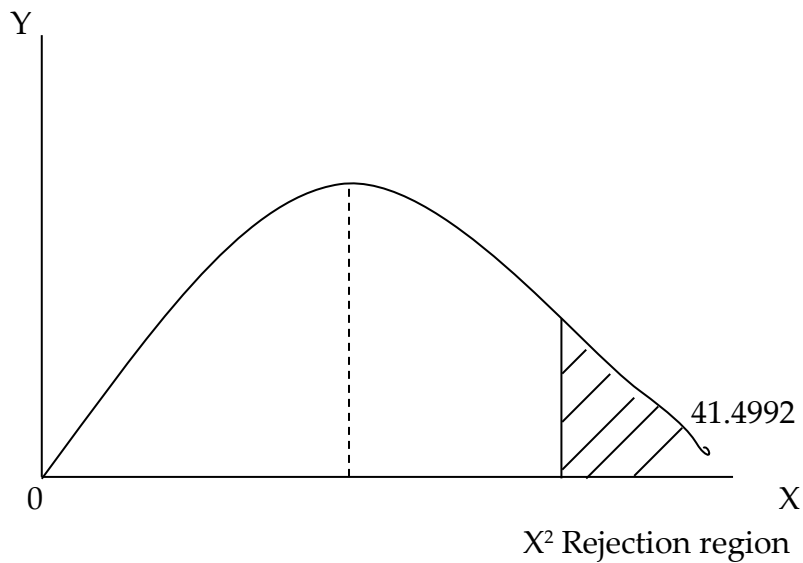


Figure 1: Standard Normal Curve

5. Conclusion and Recommendations

SMEs have always played vital role in the economy. Among the advantages derivable from SMEs are the checking of rural/urban migration, provision of employment opportunities, and conservation of foreign exchange and development of indigenous entrepreneurial skill. Handling special and varied products, which the large firms do not specialize in, and helping in the dispersal of industries and the growth in the quality of life of rural areas where they mostly operate, are some of the other advantages.

While the future of the Nigerian economy resides in the development of SMEs, there are many problems hindering their growth and development. The major problems confronting SMEs include: financial problem, deficient entrepreneurial capacity and shortage of technical manpower. Economic depression is characterized by these problems. Most of these problems or obstacles can be overcome by political stability, provision of adequate incentive systems, adequate infrastructures, developmental finance and credit facilities, among others.

In spite of the large problems confronting SMEs during economic depression, the future for this vital sub-sector of the Nigeria economy is bright. The ever-increasing ability of SMEs will lead to generating new ideas, new products and new services to consumers. Among other programmes which show promise of a bright future for small scale industries include (i) encouragement by the Nigerian Stock Exchange (NSE) in approving SMEs applications to raise funds from the capital market due to the increasing cost of funds in the money market, and (ii) the special loan facilities provided by the National Economic Reconstruction Fund (NERFUND) from time to time.

The various measures taken to ensure the growth and development of the small and medium scale enterprises have witnessed limited success as a result of myriad of reasons. These include inadequate infrastructural facilities, continued restricted access to

credit as well as abuse of the various programmes by both the beneficiaries and the operators arising from insincerity of purpose, among others.

The SMEs however remain very prominent in the industrial growth path of any economy. Consequently, efforts towards a sustainable growth of the sub sector should be intensified. In this regard, the various current initiatives (SMIEIS, BOI, NACRDB, ACGS etc.) should be strengthened and refocused in order to obviate the problems associated with past initiatives. Towards this, the following should be seriously considered:

- 1) Efforts should be intensified towards the adequate provision of infrastructures. This would not only reduce the cost of production and enhance competitiveness, but would also encourage further investment and growth of the sector. Also, observed constraints such as demand for cumbersome collateral security in accessing available credits should be removed. Operators of the different initiatives should therefore endeavour to ensure that funds get to the targeted group of investors. This may require a review of the existing framework to ensure greater flexibility without sacrificing the principle of sound financial practice.
- 2) Government should on its part endeavour to fund the Banks of Industry and the Nigerian Agricultural Cooperative and Rural Development adequately. Again, the apparent lull in the activities of the Small and Medium Industries Equity Investment Scheme (SMIEIS) shows that the problem with the growth of the SMEs is not just capital. There is the problem of inertia, unwillingness to dilute ownership and control, fear of the unknown, etc. These can be solved through enlightenment. Therefore, the active involvement of the Nigerian Association of Small Scale Industrialists (NASSI) and all other groups of the organized private sector should be encouraged in order to have wider coverage and patronage. Experience has also shown that information on SMIEIS is yet to be adequately disseminated.

Conflict of Interest Statement

The author declares no conflicts of interests.

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